

Ag Decision Maker

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Crop revenue insurance proceeds – price loss versus yield loss

By Charles Brown, extension farm management specialist, 641-673-5841, crbrown@iastate.edu

With the drought and floods in 2018 (Figures 1 and 2), there has been some discussion on the income tax treatment of crop insurance proceeds. Some people may have sold the 2017 crop in 2018 and are concerned about the doubling of income if they also received their crop insurance payments in 2018 as well. It is possible to defer the crop insurance to the year following harvest, but certain criteria have to be met.

A cash method farmer may elect to postpone reporting insurance proceeds on damaged crops from the year of damage to the following year if 50 percent or more of the crop is normally sold the year following production. This is determined on a crop-by-crop basis. This is done by making the election IRC Sec. 451(d); Reg. 1.451-6 on the tax return for the year of loss. A statement must be attached to

the tax return and include the following:

1. This election is made under IRC Sec. 451 (d) and Reg. 1.451-6.
2. Identification of the specific crop or crops destroyed or damaged.
3. A statement that under normal conditions the crop would have been sold the following year.
4. Identification of the cause of destruction or damage and the dates it occurred.
5. The amount of payment received and the date each payment was received for each crop.
6. The name of the insurance carrier or payer from whom the amounts were received.

If you defer insurance for one crop you must do it for all crops that insurance money was received for. This would include any disaster money received from

USDA. Crop revenue insurance guarantees a certain level of income based on yield and price. Sec. 451(d) allows the deferral of crop insurance proceeds

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

2017 Iowa Farm Costs and Returns – C1-10 (9 pages)

Iowa Farmland Rental Rates 1994-2018 (USDA) – C2-09 (1 page)

Please add these files to your handbook and remove the out-of-date material.

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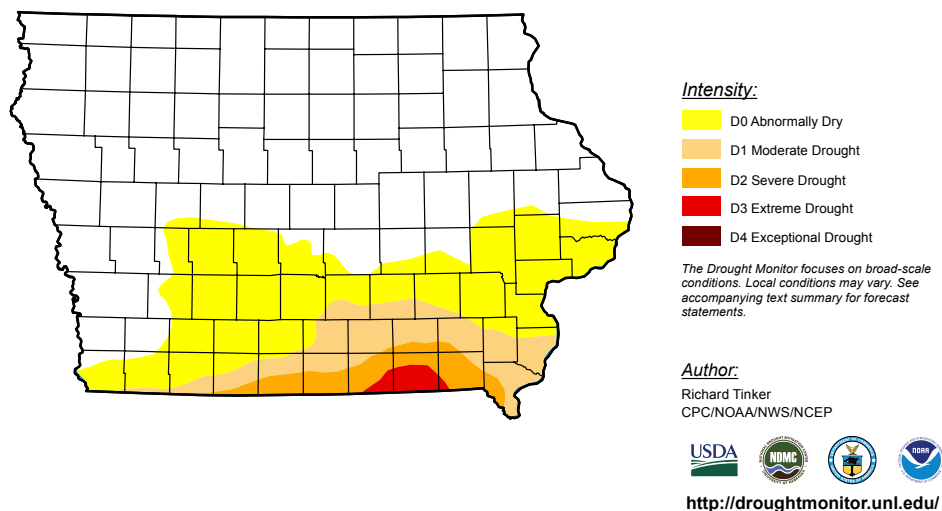
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“received as a result of destruction or damage to crops” or the inability to plant crops because of a natural disaster. IRS has previously ruled that insurance programs that provide payments without regard to actual losses fall outside the statutory definition of destruction of damage to crops. Therefore crop revenue insurance proceeds would not be eligible for deferral. However, if you can prove a portion of the insurance proceeds was the direct result of crop damage due to hail, flooding, drought or some other destruction, or some

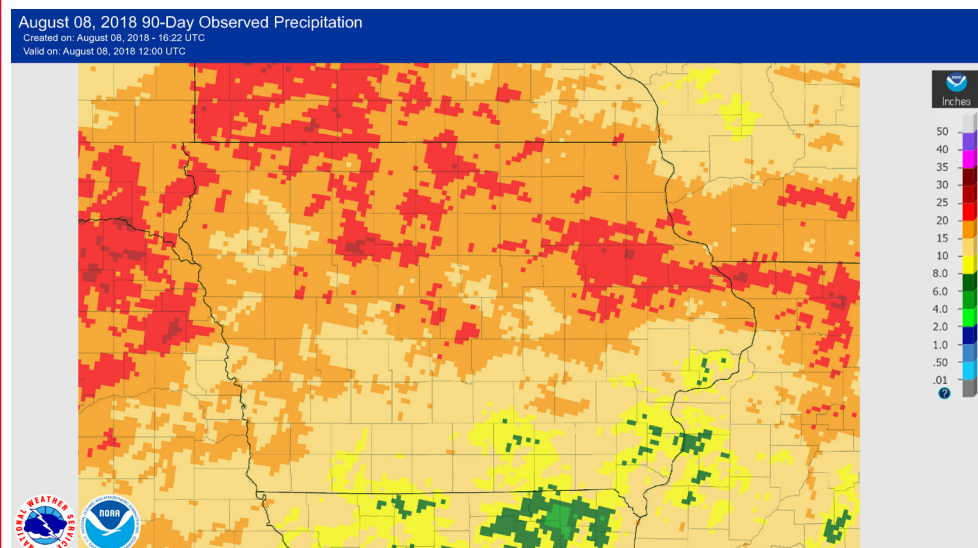
portion of the proceeds was the result of damage, then that portion of the insurance proceeds should be allowed for the deferral election. The portion of the proceeds that was related to price would have to be reported as income in the year received. This year, 2018, it is possible that the harvest price could be lower than the spring price and a portion of the insurance proceeds will be because of price loss. Please contact your tax professional for consultation on specific questions for your farm.

Figure 1. U.S. drought monitor, Iowa



August 7, 2018 (Released Aug. 9, 2018); The National Drought Mitigation Center
<http://droughtmonitor.unl.edu/CurrentMap/StateDroughtMonitor.aspx?IA>

Figure 2. 90-day precipitation



August 8, 2018; NOAA National Weather Service 90-Day Observed Precipitation,
<https://water.weather.gov/precip/>



Conservation practices and land leases

By Angie Rieck-Hinz, extension field agronomist, north central Iowa, 515-231-2830, amrieck@iastate.edu

Often times I hear from both landowners and tenants questioning how to incorporate specific conservation practices into leases. The first step to take is for both parties to meet and have an open discussion about the goals of including specific practices. Specific practices such as wanting a tenant to include a cover crop on crop acres takes planning in advance, maybe up to a year in advance. A conversation about who is paying for the seed and the seeding of the cover crop, termination costs, possible decrease in commodity crop yields and other factors should be included in the discussion. Other practices such as moving from conventional tillage to strip-tillage or no-tillage may require a significant investment on the part of the tenant in terms of machinery. In either case, these annual practices may require a huge learning and adoption curve so expectations from both parties need to be understood and discussed. Starting on a small number of acres is highly advisable.

More permanent practices such as waterways and terraces are likely to benefit the landowner long-term more than the tenant and may be a cost the landowner incurs. Management and maintenance by the tenant may be required so including language in the lease can be specific to the situation. There are many conservation practices available that address soil erosion, water quality and wildlife benefits, but for the purpose of this article let's focus on cover crops.

Cover crops are loosely defined as closely planted crops that bridge the gap between harvest and planting of our primary commodity crops such as corn and soybean. During this time much of Iowa's landscape is bare of vegetation and is most vulnerable to water and wind erosion as well as nutrient loss. Cover crops are planted for many reasons including but not limited to, 1) reduce erosion, 2) cycle nutrients such as nitrogen that could otherwise be lost to leaching, 3) improve soil health and 4) feed source for animals. If

a landowner or tenant is considering cover crops to meet any of the above reasons here is a list of things to consider and ways to start the conversation.

- Identify the goal(s) of growing the cover crop.
- Talk to experienced cover crop users to learn how they got started and understand the benefits and any challenges they have experienced.
- Have an open discussion on the potential for yield loss in the commodity crop.
- Explore and discuss local cost-share opportunities and funding cycles.
- Discuss a termination plan. How will the cover crop be terminated?
- Possibly incentivize tenant by offering to share seed and seeding costs or even lowering cash rent.
- Have a back-up plan and communicate consistently so expectations can be tempered. What if it does not rain and the seed does not germinate? What if herbicide carryover impacts cover crop growth? What if a wet spring delays termination and subsequently planting of corn or beans is delayed which could impact yield? Discuss options and expectations that will define success or failure.
- Realize the inclusion of a cover crop is part of the cropping system and will require adjustments throughout the whole system and is not just something that might be there from September to April.
- Start small. There is no need to seed every acre to cover crops until everyone has more experience with this cropping system and expectations are met with reality.

Iowa Learning Farms produced a series of publications titled Talking with your Tenant, that contains four fact sheets that provide talking

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points and research that can be shared with your tenant or landowner. This series includes Cover Crops, No-Till/Strip Till, Denitrifying Practices: Wetlands, Bioreactors, Saturated Buffers and Land Use Changes: Prairie Strips, Perennial Cover, Extended Rotations.

Other resources regarding leases and conservation practices are listed below.

Resources available:

Iowa State University Center for Agricultural Law and Taxation - Iowa Farm Leases: A Legal Review
www.calt.iastate.edu/article/iowa-farm-leases-legal-review

Tax Treatment of Water Quality Measures for Farm Operators and Landowners
www.calt.iastate.edu/taxplace/tax-treatment-water-quality-measures-farm-operators-and-landowners

Landowner's Guide to Sustainable Farm Leasing. Drake Agricultural Law Center.
<http://sustainablefarmlease.org/the-landowners-guide-to-sustainable-farm-leases/>

Iowa State University Ag Decision Maker website resources

Lease Supplement for Obtaining Conservation Practices and Controlling Soil Loss
www.extension.iastate.edu/agdm/wholefarm/pdf/c2-08.pdf

Lease Supplement for Investing in Improvements on a Rented Farm
www.extension.iastate.edu/agdm/wholefarm/pdf/c2-07.pdf

Conservation Practices for Landlords
www.extension.iastate.edu/agdm/crops/html/a1-41.html

Iowa Farm Lease Form
www.extension.iastate.edu/agdm/wholefarm/pdf/c2-12.pdf

Cover crops

Alternative Ag - Cover Crops
www.extension.iastate.edu/alternativeag/covercrops.html

Iowa Learning Farms Cover Crop Resources, Videos and Research
www.iowalearningfarms.org/content/cover-crop-resources

Practical Farmers of Iowa
www.practicalfarmers.org/member-priorities/cover-crops/



The impact of climate change on world agriculture

By Don Hofstrand, retired extension value added agriculture specialist, agdm@iastate.edu

Rising temperatures, changing precipitation patterns, and more extreme weather events will negatively impact the world's ability to produce food. At the same time the demand for food will grow due to an increasing world population and rising incomes in the developing world. Meeting this challenge will depend on agriculture's ability to adapt to a changing climate while developing and adopting the technologies needed to meet the increase in food demand.

World food production relies on regions of the world highly suitable for rainfed agriculture. These regions require a combination of four factors; the proper amount of precipitation, temperature levels for optimum plant growth, soils suitable for agriculture production, and terrain suitable for agricultural practices. Regions of the world containing these factors include the U.S. Midwest, portions of Brazil and Argentina, Europe, sub-Saharan Africa, India and Eastern China.

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As temperatures rise and rainfall patterns shift, the productivity of these regions will be negatively impacted. The impact of higher temperature on crops will depend on the crops optimal temperature for growth and reproduction. A small rise in temperatures in many prime growing regions will slightly increase yields, but more significant temperature rises will lead to yield declines.

Regions of the earth in the mid to upper latitudes may benefit from more heat and a longer growing season. But regions at lower latitudes are especially vulnerable because they already suffer from intense heat. This loss is expected to more than offset any advantage in the upper latitudes.

Less precipitation in an area due to climate change will usually lead to a decrease in productivity. The extreme example is droughts. However, more precipitation may not improve agricultural productivity. If the precipitation increase leads to more water-logged soils and flooding, productivity will decline.

Irrigation can provide a short-term solution for a few decades, but it often does not provide a permanent or sustainable solution. We see numerous regions of the world where widespread irrigation faces challenges relating to water supply (e.g., aquifer depletion, competing uses for reservoir water) or salinization of land under long-term irrigation. Numerous past civilizations that thrived and expanded based on irrigated agriculture eventually collapsed because of the long-term unsustainability of irrigated agriculture.

The sustainability of irrigation is especially of concern where groundwater from underground aquifers is used. Over half of the world's largest aquifers are being drained faster than they are being refilled.

Climate change will be of special concern in poor countries with subsistence agriculture. In these countries, the ability to adapt to a changing climate is more limited than in the U.S. and other industrialized countries.



Dairy farm stress webinar series now archived

By Jenn Bentley, 563-382-2949, jbentley@iastate.edu;
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563-583-6496, tranel@iastate.edu, dairy specialists, Iowa State
University Extension and Outreach

Farming is often listed as one of the most stressful occupations in the United States. This is particularly true for dairy farmers as they experience an extended period of low milk prices.

To help dairy farmers deal with stress, Iowa State University Extension and Outreach hosted a series of three webinars that discussed how to recognize the signs of stress, how to deal with dairy farm families experiencing stress, analyzing a dairy for profits, the profitability of various dairy systems and what FINBIN says about production costs.



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Dairy farm stress webinar series now archived, continued from page 5

The webinars have been archived and remain available to be viewed through the Four-State Dairy Nutrition & Management Conference website at www.fourstatedairy.org/webinars.html.

The topics discussed in the webinars included:

- Recognizing and managing stress in dairy farmers
- Do you know your cost of production and where the dairy industry is headed?
- Making production decisions during challenging times

The webinars were presented and sponsored by extension specialists from ISU Extension and

Outreach, University of Illinois, University of Wisconsin, and University of Minnesota.

For more information contact ISU Extension and Outreach dairy specialists Larry Tranel at tranel@iastate.edu or 563-583-6496, Jenn Bentley at jbentley@iastate.edu or 563-382-2949 or Fred Hall at fredhall@iastate.edu or 712-737-4230 www.extension.iastate.edu/dairyteam/.

Iowa Concern is a source of help for Iowans in need, the hotline is available 24 hours a day, 7 days a week, 1-800-447-1985, or visit the website to email an expert or live help via online chat, www.extension.iastate.edu/iowaconcern/.

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Internet Updates

The following Information Files and Decision Tools have been updated on www.extension.iastate.edu/agdm.

2016 Projected ARC Payments – A1-32 (Decision Tool)

2017 Projected ARC Payments – A1-32 (Decision Tool)

PLC Projected Payments – A1-32 (Decision Tool)

2014-2018 Payment Data by County for ARC-CO and PLC – A1-33 (Decision Tool)

Partial Budgeting: A Tool to Analyze Farm Business Changes – C1-50 (2 pages)

Partial Budgeting: A Tool to Analyze Farm Business Changes – C1-50 (Decision Tool)

Marketing Strategies – C5-18 (2 pages)

Promoting Your Business – C5-43 (3 pages)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85 (Decision Tool)

Soybean Profitability – A1-86 (Decision Tool)

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

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